DOW THEORY LETTERS INC.

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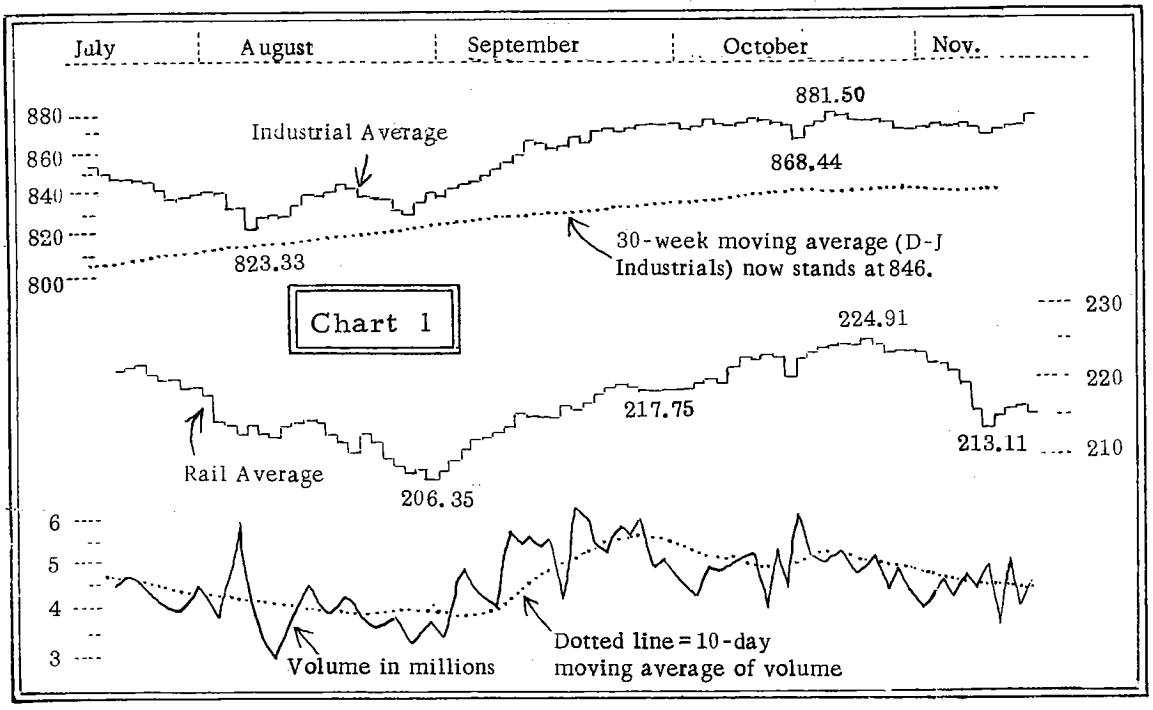
THE MARKET: It seems to have gone strangely unnoticed, but since mid-September the Industrial Average has formed a "line"-like structure, bordered on the topside by the all-time high of 881.50 and on the downside by the October 15 low of 868.44. During the same period (see Chart 1) the Rails have fluctuated within an area bordered by the all-time high of 224.91 and the late-September low of 217.75. As seen by the dotted volume line, average volume since late September has tended to diminish. Therefore, despite Khrushchev's exit and China's nuclear success, despite the Labor victory in England and the Democratic landslide here, and despite booming domestic business conditions and promises of further tax cuts, the Averages have been suspended in a rather remarkable state of equilibrium.

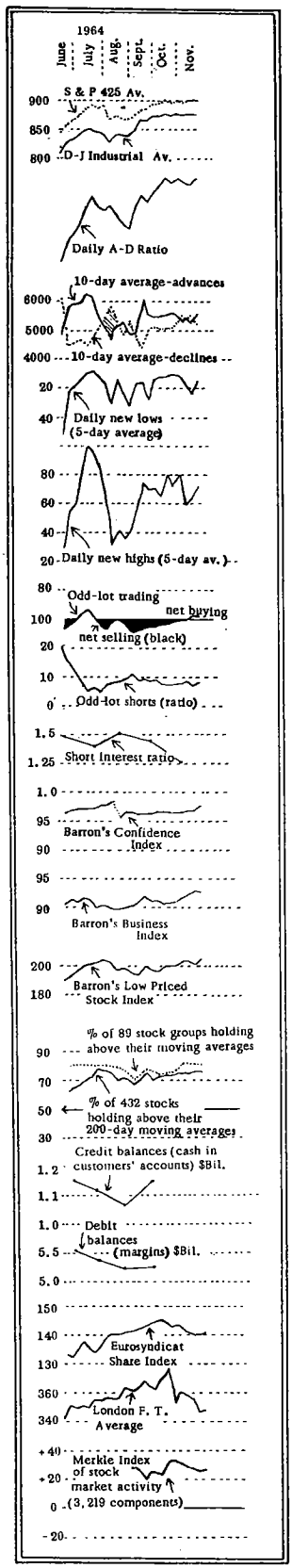
The market has been considering more than meets the eye and more than graces the newspaper headlines. With Industrials in a tight range and with Rails fluctuating within a slightly larger area, it is impossible to tell whether we are witnessing distribution or accumulation. Nevertheless, Dow's Theory states that the trend is taken to remain in force until proved otherwise. The last trend was bullish in both the primary and secondary sense.

For those who have been "sweating through" the difficult period of the past few months, there exists but one signal which will gladden their hearts; that is a joint rise by both Averages to new highs, (preferably on increasing volume). And what would constitute a valid "sell signal?" I list the potential danger signals as follows: (1) a joint breaking of 868.44 (Industrials) and last week's Rail low of 213.11; (2) an Industrial penetration of 845, which is the current level (see Chart 1) of the 30-week moving average; (3) finally, an Industrial violation of 823.33 (the August low) and a Rail penetration of 206.35 (the August low).

* * * * *

The Composite Chart shows the two Averages moving sideways while the A-D ratio hovers near its October 20 high. The 10-day average of advances has crossed (hopefully) above the 10-day average of declines. Daily new highs are still tracing a receding path, but daily new lows (by staying in the 25 and below area) provide no evidence of real selling pressure. Odd-lot transactions hold practically in equilibrium and show no pronounced trend. Barron's Confidence Index has risen to a new high of 97.6; thus bond buyers are displaying continuing confidence in the more speculative side of the bond list. This would suggest at least a first quarter rally to new highs by the D-J Industrials (judging by the 2 to 4





 month lead of the C.I.). Of 89 stock groups (tabulations from Indicator Chart Service, Palisades Park, N.J.), 71 or 80% are holding above their moving averages. Of 432 individual stocks (tabulations from Quote Digest), 327 or 76% are holding above their moving averages. No worries yet from either of these indicators. Of the final three indicators, the only significant change is the London Financial Times Index. As sterling sinks to its "support" level, as Prime Minister Wilson plays "footsie" with a critical balance-of-payments crisis, the London F.T. Stock Average continues to reflect the worries of investors.

Conclusion: No technical weakness yet. That does not mean that it's easy to make money in this market (which remains "a tough baby," or I should say "a tough old man"), but the burden of proof continues to fall on the bears.

LEADING ANALYSTS (continued): This week's analyst is Joseph Granville. Granville is a man who works, plays, eats, and sleeps the market. He is very intense and extremely inventive. When you converse with Granville he will fire back his ideas and answers with such rapidity and he has so many facts at his command that it is literally hard to keep up with him. For a number of years Granville wrote the nation's most popular daily market letter (for E.F. Hutton & Co.). I can vouch for the fact that it is a real feat to write a daily letter about the market which is consistently interesting and informative. Joe did it — with ease.

Granville's two books raised quite a stir on Wall Street. The first ("Strategy of Daily Stock Market Timing for Maximum Profits") concerned itself with a large selection of market indicators, and Granville as much as any living analyst led in the development and popularization of the "indicator approach" to the market. Nevertheless, I believe Granville would be the first to state that neither a mass of indicators nor any other approach constitutes a system for "beating" the market. Those who have followed Granville's writing know that one of his trademarks is a healthy skepticism. He has learned (as have we all) that there is no sure way of making a fortune on Wall Street.

Granville's second book ("Granville's New Key to Stock Market Profits") advanced the theory of OBV (on-balance volume). This is actually an advance-decline index of volume (or a running addition-subtraction index of volume) in individual stocks. From this Granville developed his "climax indicator" which is a daily tabulation of the number of OBV breakouts in the 30 D-J Stocks. Such innovations are characteristic of Granville, an analyst who never ceases his research in an effort to find out how and why the market "ticks."

What does Granville think now? In his own investment service (which he started about a year ago) Joe states that he is bearish about the big picture. He has been of the opinion that the risks outweighed the chances of profits for diversified portfolios throughout 1964. And although he has liked a number of individual stocks (including golds and silvers) he believes the market is now suffering increasing deterioration preparatory to a major bout with trouble.

Granville calls particular attention to the progressive deterioration of the daily new highs on the N.Y.S.E., the volume climax for the 1962-64 rise (the peak of which occurred in 1963) and the poor showing of his OBV figures and his climax indicator. He thinks the big picture for the investor from here on is not profits but preservation of capital.

Next week: Garfield Drew.

CANADIAN AND SOUTH AFRICAN GOLDS: United States low makes it illegal for its citizens to own gold. This presents a problem for Americans who wish to protect themselves against the possibility of a rise in the price of gold (devaluation). In many other nations, citizens who distrust the intentions of the official guardians of their money (the U.S. Treasury in our case) have an easy recourse — they can turn in their paper money for gold and await developments.

It is some consolation for Americans to realize that gold mining shares provide an indirect call on any increase in the price of gold. It is, of course, legal for Americans to own equities in gold mining companies, and for this reason I have decided to give subscribers more detailed and fundamental information on the two major "classes" of gold mining shares.

Gold is the only commodity which major countries will purchase at a minimum guaranteed price. Moreover, gold is the one important commodity which is selling today at the same price it sold for thirty years ago. Gold must therefore be considered a "special situation" as far as fundamental value is concerned.

The next question is -- what could cause a rise in the price of gold? The gold price could be raised (1) in recognition of the fact that the yellow metal is priced unrealistically low in today's market; (2) to provide an incentive for increased mining and production of gold. A larger amount of gold is now needed (A) to raise the ratio of gold to the world's paper money supply (which is now 15% against a pre-war figure of 40%); (B) to increase the gold base of the various central banks, which in turn, would increase the world's credit base. At present, all pressures would seem to be on the side of an ultimate rise in the price of gold. Whether such an increase is fated to occur before or after a possible world crisis is debatable. The fact is that the odds, history and the trend of current events all favor a rise in the gold price.

Aside from any change in the price of gold, an eventual decline in world business (a severe recession or a depression) would result in vastly lower costs for mining and refining gold while the price received by mines for gold would remain stable. Such a

situation would obviously favor profit margins in gold mining shares.

At present there exist only two important gold mining areas in the world — Canada and South Africa. These two areas produce 80% of all new gold. Canada is comfortably close to the U.S., it is a relatively stable nation, and it is a country well known to Americans. Canada is, in fact, our "sister nation." On the other hand, South Africa is situated in an unfamiliar and distant continent, a continent in flux. Particularly important, of course, is the fact that S. Africa is a land where racial problems abound. Nevertheless, the S. African situation is vastly better than most people suspect. South Africa's growth rate is one of the highest in the world. The Bantu people who work the S. African mines are considerably better off than members of their race anywhere else in Africa; they have, in fact, averaged wage increases of 4.9% annually since 1957. The police force of S. Africa is considered highly efficient and the S. African army is well able to halt any possible aggression from other S. African neighbors. Most important, S. Africa has a diversified industrial economy, a strong balance of payments, excellent money and capital markets, good labor-management relations and a stable public administration.

Here is a comparison of the gold mining capacities of Canada and S. Africa:

(1) In the last 7 years S. African gold mines increased output 61% while Canadian mines dropped 10%. In 1957 S. Africa produced 17 million fine ounces of gold; in 1963 she produced 27 million. In 1957 Canada produced 4.4 million ounces of gold; in 1963 she produced 3.9 million.

(2) Grades of gold ore in S. Africa run considerably richer than in Canada.

(3) S. African gold mines are the richest in the world with indicated life spans (reserves) of from 20 to 30 years. Canadian mine life spans average from 4 to 10 years.

(4) Costs per ounce of production run much lower in S. Africa than in Canada. For instance Giant Yellowknife's cost per ounce is $19.35, while Free State Geduld's cost is $11.54 per ounce.

(5) Prices of S. African gold stocks are much more attractive than Canadians from the standpoint of price-earnings ratios and yields. S. African golds may be purchased as true investment "values." P/E ratios for Canadian golds average around 15; P/E ratios for S. African golds average 7 to 10. Yields on Canadian gold stocks run around 3-5%; yields of S. Africans average 7-10%.

(6) Foreign investors are subject to a 7½% withholding tax on dividends of S. African whereas the Canadians levy a withholding tax of 15% on foreigners. Dividend income from both S. African and Canadian stocks is freely convertible at official exchange rates.

The following statistics are worth studying. I have included leading Canadian gold companies and leading S. African companies (all the S. African shares shown here are quoted daily in the Wall Street Journal in the "Foreign Quotations" section):

CANADIAN MINES	Daily tons	Est. yrs. for life of mine	Per Share Earnings	Current Price	Approx. P/E Ratio	Div. 1963	Approx. Yield	Oper. Cost per oz. of Gold
Campbell Red Lake	706	7	.59	$15.50	26.3	.46	2.9%	$14.97
Dome Mines	1,986	4	1.25	28.50	22.8	.80	2.8	35.01
Giant Yellowknife	1,064	10	.92	11.25	12.1	1.00	8.8	19.35
AFRICAN MINES								
Blyvoors	4,804	23	.58	4.04	6.9	.42	10.2	15.29
Free St. Geduld	3,920	22	1.74	15.67	9.0	1.43	9.1	11.54
President Brand	5,463	25	1.26	9.32	7.3	1.06	11.3	12.59
President Steyn	5,394	29	.67	2.98	4.44	.23	7.7	26.34

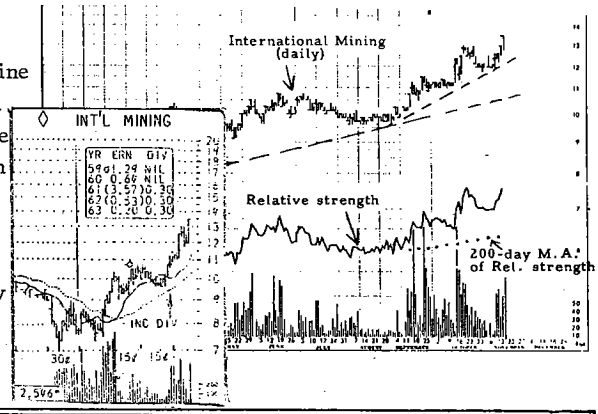
(Note: above figures are all taken from the Investment Dealer's Digest, October 19, 1964. In most cases the prices of these stocks have risen but these figures will serve to give subscribers an idea of the comparative merits of these two classes of gold mining shares).

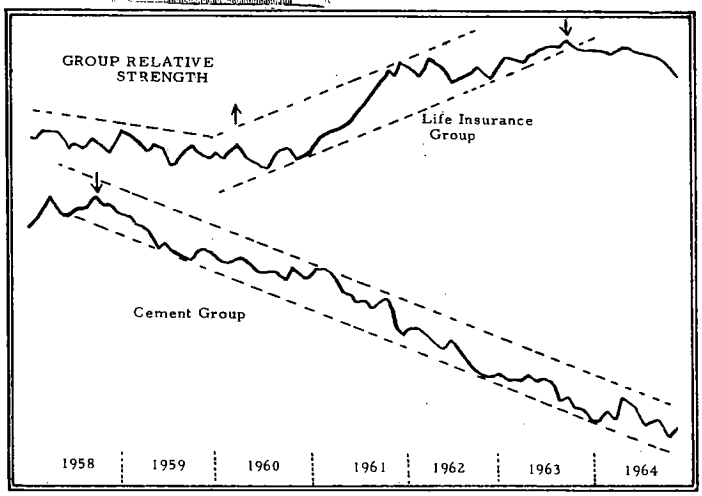
STOCKS: I continue to receive requests for more "medium-priced to low-priced speculations." Many subscribers write that they are fully aware of the inherent risks in buying stocks today, but they are willing to assume the risks as long as they have an opportunity of studying the situation carefully.

I want to repeat that Mohasco and Foremost Dairies continue to qualify as good speculations. Foremost has risen about 10% from where I first recommended it (Letter 267), and the stock is attracting insider and fund buying. The same can be said of Mohasco.

I am presenting another low-priced speculation with this Letter, International Mining (chart on Page 4). This stock has a finger in a great many pies, with a 13% ownership of Molybdenum, 2/3's interest in Pato Consolidated (the world's largest gold dredging

outfit), a piece of Fresnillo (Mexican silver mine), gold dredging interests in Bolivia and Columbia and outright ownership of a marine terminal in Baltimore. The stock has absorbed the former S. Amer. Gold and Platinum Co. The daily chart shows IMC walking up a nice asceding trendline. The relative strength (R.S.) is excellent, having risen to new highs along with the stock. The R.S. line is holding well above the 200-day moving average of R.S. (the latter is Traders Research's "Performance Pattern"). The small weekly chart shows IMC pushing above its 10-week M.A., which in turn is holding bullishly above the 200-day M.A. (dotted line on chart). Surprisingly for this type of stock, latest figures (from TSR Reports, Palisades, N.J.) show that funds purchased 48 thousand shares of IMC over the past three months. I consider IMC a very interesting little speculation, one well worth buying — particularly if you can get the stock around 12½ to 13.

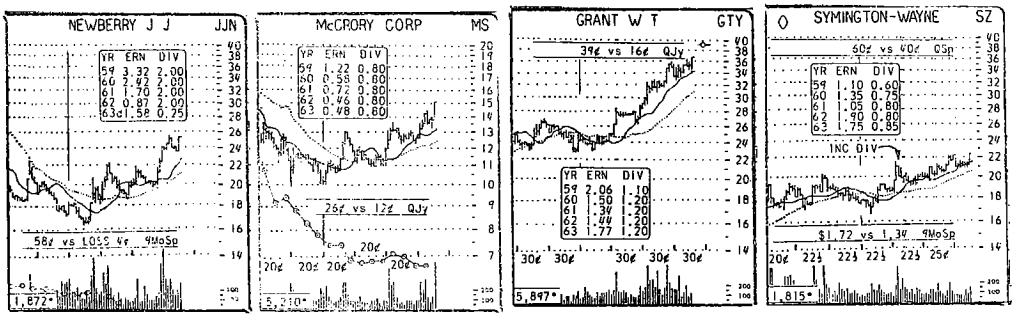




Group relative strength (R.S.) shows few important changes this month. Aluminums have now sunk to their lowest R.S. or market popularity in five years, and this group should be about "sold out." Aluminium Ltd. may be the first in the group to receive interest, and latest figures show that funds bought 95 thousand shares of AL over the past three months. When thinking of lows in popularity, one's mind immediately turns to Cements. This group (see chart) shows an extraordinary six year collapse in R.S. A few services have started to recommend selected stocks in this group, and some of the issues (Amer. Cement, Penn-Dixie) are creeping above their moving averages. However, through hard experience I have learned to think twice before buying in a group which is not acting better than the market. The Cement chart is saying "wait," but we will watch it anyway, for when a group drops this long and this low in popularity, the ultimate turn to the upside (when it comes) can be spectacular.

The Life Insurance Group provides another lesson. The group acted so well for so long that a number of services were started — each predicated on "picking" the winners in this group. Ironically, at about the time these services were inaugurated, the group "topped out" in R.S. (see chart). This highly touted group has been acting poorer than the market since mid-1963.

The Retail Variety Chains are "working out" well. Newberry and McCrory (recommended in Letter 250 at 20 and 11½ respectively) look strong as does Grant (recommended in Letter 259 at 32). All three are still good speculations based on the very recent turnaround in their group R.S. Symington-Wayne (Letter 260) finally seems to be getting some sponsorship and is moving to new highs. SZ is unique these days in that it is selling at an attractive price/earnings ratio. The stock is showing considerable progress in earnings, is steadily increasing dividends and is still an attractive purchase.



LATE NOTE: As this is written (mid-day, Tuesday, Nov. 17) the Industrials are up 7 points while Rails ("probably due to the impending strike") are down about a point. This means that Industrials are at a new record high — unconfirmed by carriers. As a veteran market man told me this morning: "I guess it's O.K., but I wouldn't run out and mortgage the family jewels to be in it." Which is just about the way I feel about this market.

One of the best checks from this point on will be the five-day average of daily new highs. If this statistic can push above the July peak of 99 (see page 1 Composite Chart) the technical situation will have displayed marked improvement, and the market will have exhibited remarkable recuperative powers. Obviously, a market which is producing more and more new highs is a market which is rapidly becoming profitable.

Chart of Int. Mining courtesy of Traders Research, 1431 Pearl Ave., Alton, Illinois 62003.
Small weekly charts courtesy of Quote Digest, 110 N. Lorraine, Wichita, Kansas.
Group R.S. charts courtesy of Ray * Signals, 141 Broadway, N.Y.C. 6.